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Report Highlights: MY 2007/08 domestic cotton production is forecast to increase by approximately 5.8 percent to 683,000 bales. This forecast is based on a planted area estimate of 127,000 hectares, and the assumption that the Mexican government will maintain its target-price support program for cotton (see MX6037). Domestic cotton consumption, however, is forecast to decrease slightly in MY 2007/08 from the previous year's revised estimate. This decline is a result of stagnant demand from the textile industry, the main consumer of cotton in Mexico. As a result, imports are forecast to remain largely unchanged from the MY 2006/07 level of 1.5 million bales.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

MY 2007/08 domestic cotton production is forecast to increase by approximately 5.8 percent to 683,000 bales. This forecast is based on a planted area estimate of 127,000 hectares, and the assumption that the Mexican government is going to continue its target-price support program for cotton (see MX6037). The Confederation of Mexican Cotton Associations (CMCA) has stated that growers will not be able to expand, or even maintain current levels of cotton production, without this government support. The CMCA estimates that approximately 60,000 hectares will be planted with genetically modified seed varieties in MY 2007/08, an increase of approximately 20 percent over last year.

Due to revised official data from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA), and preliminary information from private sources, USDA/Mexico estimates for cotton production, and planted and harvested areas for MY 2006/07 were adjusted upward. Similarly, MY 2005/06 production and harvested area estimates were revised slightly based on official SAGARPA figures.

Domestic cotton consumption is forecast to decrease by approximately 2.5 percent in MY2007/08 from the previous year's revised estimate. Consumer demand for apparel and textile products will likely decrease next year as Mexico's apparel and textile exports continue to lose market share in the United States. The main cotton consumer in Mexico continues to be the textile sector.

Another factor that will continue to adversely affect domestic cotton consumption is the growing volume of foreign apparel and textiles entering Mexico, which has depressed demand for domestically produced products. At the same time, the expected slowdown in economic growth in 2007 will lead to lower levels of consumer purchasing power, and thus a decline in the growth of apparel spending. The outlook for the Mexican economy this year is less favorable than that of CY 2006. Mexico's Gross Domestic Product (GDP) is forecast to grow by 3.1 percent in 2007, compared to 4.46 percent growth in 2006. Inflation is also playing a significant role in apparel spending patterns. From March 2006 to February 2007 year-over-year inflation was roughly 4.1 percent. That is far lower than the triple-digit inflation experienced in the 1980's, but it is well above the central bank's target rate of 3 percent.

As a result of the above-mentioned factors, Mexico is expected to import approximately 1.5 billion bales of cotton in MY 2007/08, approximately the same volume as MY 2006/07. The U.S. is expected to maintain its dominant market share of cotton imports, as practically all cotton imports are sourced from the United States. The import estimates for MY 2005/06 and 2006/07 have been revised upward and downward, respectively, reflecting official data from the Secretariat of Economy (SE) and preliminary information from the CMCA. Similarly, the MYs 2005/06 and 2006/07 cotton export estimates have both been revised downward, reflecting both SE official figures and industry sources.

With imports remaining unchanged in MY 2007/08, ending stocks are projected to decline to 1.185 million bales, tightening the stocks-to-use ratio to 53.4 percent, compared to a 54.9 percent stocks-to-use ratio in MY 2006/07.

SECTION II. STATISTICAL TABLES

PS&D Table

PSD Table									
Country	Mexico								
Commodity	Cotton			(HECTARES) 1000 480 lb. Bales(PERCENT) (KG/HA)					
	2005 Revised			2006 Estimate			2007 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin	08/2005			08/2006			08/2007		
Area Planted	0	130	130	0	115	116	0	0	127
Area Harvested	126	127	126	115	114	115	0	0	124
Beginning Stocks	1319	1354	1319	1324	1218	1394	1134	1019	1247
Production	635	627	635	635	617	648	0	0	683
Imports	1744	1562	1840	1500	1562	1500	0	0	1500
MY Imports from U.S.	1742	1560	1838	1498	1560	1498	0	0	1498
Total Supply	3698	3543	3794	3459	3397	3542	1134	1019	3430
Exports	249	300	275	250	350	220	0	0	220
Use	2100	2000	2100	2050	2003	2050	0	0	2000
Loss	25	25	25	25	25	25	0	0	25
Total Dom. Cons.	2125	2025	2125	2075	2028	2075	0	0	2025
Ending Stocks	1324	1218	1394	1134	1019	1247	0	0	1185
Total Distribution	3698	3543	3794	3459	3397	3542	0	0	3430
Stock to Use %	56.364410	52.956521	58.694736	49.304347	43.306417	54.933920	0	0	53.378378
Yield (KG/HA)	1097	1075	1097	1202	1178	1227	0	0	1199

Trade Matrices

Cotton	H.T.S. 52010002, 52010003, 52010099		UNITS: MT
EXPORTS TO:	MY 2004/2005	MY 2005/2006	MY 2006/2007①
U.S.	8,020	5,689	127
CHINA	19,146	33,187	6,793
JAPAN	4,257	1,475	1,039
GUATEMALA	502	0	0
VIETNAM	2,179	7,188	3,543
TAIWAN	1,409	2,333	882
INDONESIA	979	3,416	5,092
OTHERS NOT LISTED	1,665	6,678	4,722
GRAND TOTAL	38,157	59,966	22,198

SOURCE: World Trade Atlas, Mexico Edition, January 2007.

MY begin August ends July. ①Data as of January 2007.

Cotton	H.T.S. 52010002, 52010003, 52010099		UNITS: MT
IMPORTS FROM:	MY 2004/2005	MY 2005/2006	MY 2006/2007①
U.S.	400,374	382,027	123,460
CAMEROON	0	0	0
MALI	0	0	0
OTHERS NOT LISTED	266	425	155
GRAND TOTAL	400,640	382,452	123,615

SOURCE: World Trade Atlas, Mexico Edition, January 2007.

MY begin August ends July. ①Data as of January 2007.

Cotton Yarn 5206, 5207	H.T.S. 5205,	UNITS: MT
EXPORTS TO:	CY 2005	CY 2006
UNITED STATES	15,044	11,661
CANADA	525	447
GUATEMALA	182	77
COLOMBIA	301	2,567
OTHER NOT LISTED	441	567
GRAND TOTAL	16,493	15,319

SOURCE: World Trade Atlas, Mexico Edition, January 2007.

Cotton Yarn H.T.S 5205 , 5206 , 5207		UNITS: MT
IMPORTS FROM:	CY 2005	CY 2006
United States	6,756	11,077
EL SALVADOR	1,528	924
SPAIN	1,379	1,483
SOUTH KOREA	827	1,391
OTHER NOT LISTED	1,176	991
GRAND TOTAL	11,666	15,866

SOURCE: World Trade Atlas, Mexico Edition, January 2007.

Woven Cotton Fabrics H.T.S. 5208, 5209, 5210, 5211, 5212		UNITS: M ²
EXPORTS TO:	CY 2005	CY 2006
United States	21,122,070	11,288,512
COLOMBIA	7,462,267	12,254,950
CUBA	241,855	33,194
HONG KONG	723,917	38,418
OTHER NOT LISTED	2,758,028	4,038,616
GRAND TOTAL	32,308,137	27,653,690

SOURCE: World Trade Atlas, Mexico Edition, January 2007.

Woven Cotton Fabrics H.T.S. 5208, 5209, 5210, 5211, 5212		UNITS: M ²
IMPORTS FROM:	CY 2005	CY 2006
United States	60,652,182	123,748,006
BRAZIL	13,829,217	11,316,538
SPAIN	10,806,617	19,200,891
INDIA	8,939,559	4,430,189
GUATEMALA	13,654,897	15,852,478
PAKISTAN	11,569,470	8,376,357
OTHER NOT LISTED	36,418,312	40,196,109
GRAND TOTAL	155,870,254	223,120,568

SOURCE: World Trade Atlas, Mexico Edition, January 2007.

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY, & MARKETING**Production**

MY 2007/08 Mexican cotton production is expected to increase to 683,000 bales, roughly a 5.4 percent increase over the MY 2006/07 revised estimate. This estimated increase is primarily attributed to an eight percent increase in harvested area, not to higher yields, and assumes average weather conditions. According to several cotton growers, the Government of Mexico (GOM) will continue to fund the Cotton Price Support Program (See MX6037) in MY 2007/08. This program is vitally important to cotton production in Mexico, as it is the main impetus for many farmers to continue planting cotton. Producers insist that it would not be economically feasible to grow cotton, let alone expand production, without government support.

The MY 2007/08 planted cotton area, yield, and production forecast by state is as follows:

COTTON FORECAST MY 2007/08			
Region	Planted Area	Yield (Bales/Ha)	Production (Bales)
South Sonora	2,330	5.0	11,650
North Sonora	1,200	5.0	6,000
Mexicali, Baja California	27,800	5.0	139,000
Juarez, Chihuahua	40,000	5.0	200,000
Delicias, Chihuahua	4,000	5.5	22,000
Ojinaga & Aldama, Chihuahua	26,000	5.5	143,000
La Laguna, Coahuila & Durango	20,000	7.5	150,000
North Tamaulipas	3,000	4.0	12,000
TOTAL	124,262	5.5	683,350

Source: Confederation of Mexican Cotton Associations

The production estimate, as well as the planted and harvested area estimates, for MY 2006/2007 have been revised upward. These changes reflect the most recent CMCA figures. Similarly, the MY 2005/06 harvested area and production estimates have been revised slightly due to the release of new data from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA).

Cotton yields around the country vary significantly. Average cotton yields for MY 2007/08 are expected to reach 5.5 bales/ha, with a range of between 4.0 and 7.5 bales per hectare. The highest yield/ha is expected in the La Laguna region, where the cotton growers have adopted the use of genetically modified seed varieties. The Confederation of Mexican Cotton Associations (CMCA) stated that biotechnology has been an important tool in reducing pesticide use by more than 50 percent, as well as stimulating an increase yields. The CMCA estimates that in MY 2007/08 approximately 60,000 hectares of cotton land will be planted with genetically modified seed varieties, compared to the roughly 50,000 has that were planted in MY 2006/07. This improved seed will mainly be planted in Chihuahua and the La Laguna region (Coahuila and Durango states). In La Laguna, for example,

nearly 66 percent of the 20,000 has of cotton have already been sown with genetically modified seed. It should be noted that since the approval of the Bio-safety Law in 2003 cotton growers have faced significant delays in obtaining the proper governmental permits and authorizations for genetically modified cottonseed. In fact, this past year bureaucratic delays nearly prevented cotton farmers from receiving requisite transgenic cottonseed permits in time for planting. Cotton growers in La Laguna asked their respective Governors to intervene with the federal government on their behalf in order to expedite the process.

In addition to the cotton price support program (See MX6037), a flat-rate payment of 963 pesos/ha (roughly U.S. \$86.52/ha) was granted to cotton growers for the 2006 spring/summer crop cycle under PROCAMPO, the Mexican domestic agriculture support program. The GOM policy is that farmers with production areas of between one and five hectares will receive 1,160 pesos per hectare (approximately U.S. \$104.22/ha). The GOM has yet to announce the payment amount for the 2007 spring/summer crop cycle.

Recently SAGARPA started using a new methodology to estimate production costs of farm inputs for cotton and other important commodities. Total input costs for cotton production, in the main cotton producing states using this new estimation technique, are as follows:

Cotton Production Cost Budget for Several States & Crop Cycles (Pesos per Hectare)		
State	2005 Spring/Summer	2005/06 Fall/Winter
Sonora	15,331.51	N/A
Baja California (Mexicali)	14,526.20	N/A
Chihuahua	10,1810.86	N/A
Coahuila (La Laguna)	19,958.46	N/A
Tamaulipas	N/A	8,413.80

Exchange Rate as of April 23, 2007: U.S. \$1.00 = 11.09 Pesos

Source: SIAP/SAGARPA

Large mills have continued to purchase U.S. cotton, as U.S. cotton is considered to be of consistently higher quality, while the quality of Mexican cotton continues to vary, and typically grades poorly, according to industry sources. Although there are approximately 150 cotton gins in Mexico, almost all are outdated and tend to damage the cotton during the ginning process. Large textile firms use Universal HVI Calibration Cotton Standards to sort the cotton by fiber length, strength, micronaire (a measure of the cotton's fineness), color grade, color Rd (reflectance), color +b (yellowness), and trash percentage. Mexican growers, however, do not use such standards, and consequently only the smaller mills use Mexican cotton for products designed for the domestic market.

Consumption

The consumption estimates for MYs 2005/06 and 2006/07 have been revised upward based on the most recent industry information. MY 2007/08 consumption estimates are forecast to decline by approximately 2.5 percent to 2 million bales. The textile industry has been under pressure from more competitive foreign competition, thus growth in consumption within this sector has been somewhat stagnant. Furthermore, FAS/Mexico does not anticipate any increases in domestic cotton consumption in the foreseeable future. There are two main users of Mexican cotton, the textile industry and the oil industry.

Until 2005 Mexico was the dominant foreign supplier of cotton apparel to the U.S. market. Mexican market share of the cotton apparel market peaked in 2000, but in the last six years Mexican shipments are down by 38 percent. This decline is almost exclusively attributed to the fact that Mexico's apparel and textile industry is losing domestic and U.S. market share to low cost production countries such as China. Industry sources estimate this trend will likely continue in MY 2007/08.

Trade

Due to the virtually stagnant demand from the textile industry, imports are forecast to remain unchanged at 1.5 million bales in MY 2007/08. The United States is the single largest exporter of raw cotton to Mexico, accounting for practically 100 percent of total cotton imports. Mexico has relied heavily on U.S. imports to supply its export assembly plants, known as Maquiladoras (in-bond companies). The import estimates for MYs 2005/06 and 2006/07 have been revised upward and downward, respectively, reflecting official data from the Secretariat of Economy (SE) and preliminary information from CMCA.

Mexican cotton exports in MY 2007/08 are expected to remain unchanged at 220,000 bales. Official trade statistics show that Mexico exported 59,966 MT for the marketing year ending July 2006. China was Mexico's largest export destination, receiving around 55 percent of total exports. Vietnam was second, receiving approximately 12 percent of total exports, while Indonesia, Thailand and Japan were Mexico's next three largest markets, respectively. The export figures for MY 2005 and MY 2006 have been adjusted downward. The changes to MY 2005 data are based on official information from SE, while changes to MY 2006 data are based on information from industry sources.

Stocks

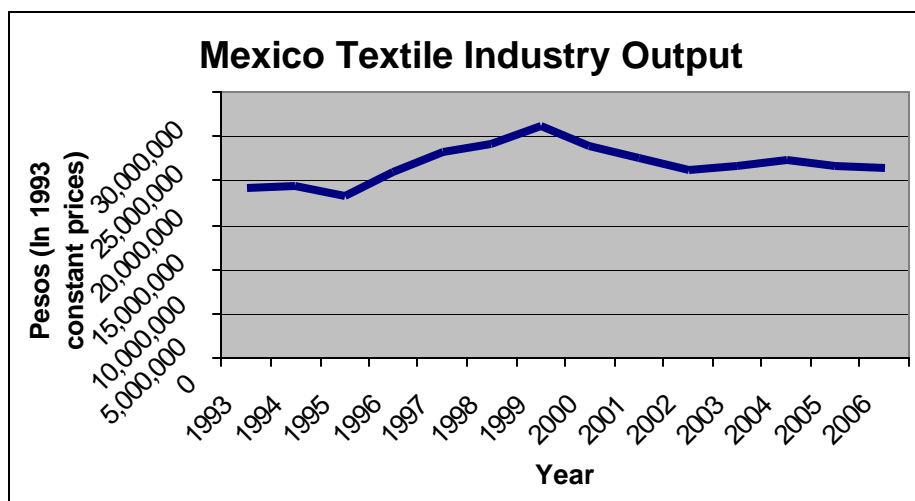
The estimated MY 2006/07 ending stocks were revised upward, due to higher-than-previously estimated domestic production. Similarly, the ending stocks estimate for MY 2005/2006 was revised upward as result of higher than originally estimated production and imports. Mexico's ending stocks are forecast to decrease to approximately 1.2 MMT in MY 2007.

Marketing

Industry consultants have reported that in order to remain a major supplier of textiles and apparel to the United States, Mexican firms should continue with their efforts to shift production from low-value-added basic garments to high-quality and technology intensive products. According to one industry source, faced with increasing competitive pressure from countries such as China, Mexican apparel producers should focus more on higher fashion, and brand-name products that require smaller and more flexible runs. If both the apparel and textile industries can achieve this, the demand for U.S. cotton could rebound. In addition, the U.S. industry should continue with its activities promoting the advantages of cotton textile products.

Textile Industry

After peaking in CY 2000, the Mexican textile has experienced a protracted period of contraction, as illustrated by the following graph, which charts industry output over the past 14 years.



Source: National Institute of Geography, Statistics and Computer (INEGI).

According to industry sources, as result of this contraction, approximately 500 companies have closed in the past six years, eliminating roughly 280,000 jobs from the sector. Two reasons are primarily cited for this contraction; a loss of market share in the U.S., and foreign competition in the domestic market. Textile and apparel producers in China and Hong Kong pose the greatest threat to Mexico's industry, with lower labor costs and more efficient production processes. Moreover, the outlook for 2007 does not support a dramatic shift in these key factors, suggesting that the volume of Mexican exports may decline further.

Mexico is competitive in the production of fibers, and the cutting, assembly and export of garments. However, the country has not been able to produce the quality fabric that is required for apparel, thus Mexico still relies heavily on imported textiles. Industry sources report that the creation of a commodity chain that uses Mexican textiles as main input, and has the capacity to deliver a fully packaged product with more value-added services is the key to the survival of the Mexican textile sector.

The Mexican textile industry also continues to complain that many textiles imported into Mexico have been brought in through methods designed to evade appropriate import duties, which harms their industry. Trade sources indicate, for example, that 60 percent of apparel purchased on the Mexican market is contraband, 20 percent is coming through illegal importation, and only 20 percent is domestic production.

On November 2006, the GOM published in the Mexican Federal Register ("Diario Oficial") a decree to regulate the "Maquila" industry, as well as the export services program (Pitex). Pitex allows for the duty-free importation of certain inputs used to manufacture products destined for the export market. However, often times these finished products are not exported, and are sold on the domestic market, creating an unfair advantage for the manufacturers that imported the inputs duty-free through Pitex. Industry sources hope that these illegal practices will be put to an end with the new decree, as the Finance Ministry and Customs (Hacienda) will now be sharing responsibility for supervision of the Pitex program with SE and the maquila industry.

Less than 40 percent of the companies within the Mexican textile and garment industry are classified as small businesses (fewer than one hundred employees). Most of the companies that have survived are large-scale vertically integrated firms that produce their own fiber and woven fabrics, and do their own bleaching, dying, printing, and other finishing. The Mexican textile industry encompasses a variety of firms ranging from the fabrication of natural, artificial and synthetic fibers, threads and weavings. Only the leading companies that export to the U.S., such as Kaltex S.A., Lear Mexican Trim, Eagle Trading Co., Nova Distex, among others, have continued to invest in machinery and equipment.

Industry sources pointed out that despite fierce international competition, Mexico still has a comparative advantage in terms of labor and production costs when compared with other countries in the Americas. The country also has a transportation advantage over Central America and the Caribbean region. Textile firms in Central America have recently started to develop more efficient production processes. However, Mexican industry sources report that these countries do not necessarily pose a threat to Mexico as long as Mexican firms are flexible enough to rapidly adapt to new market trends, and can improve their quality standards. Some sources have also reported that there is an emerging opportunity for Mexico to supply Central American countries with inputs as their textile industries develop.

In an effort to stay competitive and viable, industry experts are promoting a strategy of focusing on niche market segments in which design and quality are more important than price. In the coming year the industry will promote their ability to quickly produce a high-quality finished product to private brands. To this end the industry will focus on attracting business from the high fashion and high-end sector of the market. All of these proposals necessitate that the Mexican industry develop a cost structure that is flexible, competitive, and most importantly, adaptable to rapidly changing market conditions.